

Report
of the
Examination of
Delta Dental Plan of Wisconsin, Inc.
Stevens Point, Wisconsin
As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 28, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

DELTA DENTAL PLAN OF WISCONSIN, INC.
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the Delta Dental Plan of Wisconsin, Inc. (DDPW) was conducted in 1997 as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing
- Underwriting

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Delta Dental Plan of Wisconsin, Inc., can be described as a nonstock, nonprofit service insurance corporation, licensed under ch. 613, Wis. Stat., established to provide dental care plans. Delta offers a variety of benefit plans, including a) traditional indemnity plans on an insured or self-insured basis, b) a preferred provider option, and c) a capitated plan. These plan types are further discussed in the description of benefit plans later in this section.

The company was incorporated May 17, 1962, and received its certificate of authority on October 1, 1965. The company was initially named Wisconsin Dental Services, Inc., and in 1978 changed its name to that presently in use. The company is part of the nationwide Delta Dental Plan system. The Delta Dental Plan Association provides centralized advertising, business consulting, and other services to member plans.

Effective December 31, 1995, Delta entered into a joint venture agreement with Wisconsin Physicians Service, Inc. (WPS). Under this agreement, DDPW is to "underwrite and issue group dental coverage under one of its group dental plans to eligible participants enrolled by WPS and will also process, investigate, settle, and issue benefit payments for such plan participants." WPS' duties include marketing and premium collection. Part of the arrangement between Delta and WPS is covered by a reinsurance agreement, as is further discussed below in the section captioned "Reinsurance and Corporate Insurance." The joint venture agreement defines fees relevant to the joint venture policies and indicates that such are to be split monthly with 80% allocated to DDPW as an administrative fee and 20% earned by WPS as a marketing fee, subject to specified per-member-per-month minimum payments. The agreement is for an initial three-year term, automatically renewing for additional one-year terms thereafter.

Delta has contracts with more than 2,400 providers, approximately 76% of Wisconsin dentists. Under a participating dentist contract, providers agree to accept payment for services based on the lesser of the actual billed fee or the Maximum Plan Allowance set up Delta for each procedure. Under the indemnity plan, enrollees are free to see both contracted and noncontracted providers and no referrals are necessary to seek treatment from a specialist.

In addition to contracted arrangements with providers for its indemnity plans, the company also has PPO contracts with 460 providers and DHMO contracts with approximately 110 providers. Under the PPO contract, dentists agree to reimbursement according to a schedule designed to be 15% below the average fee charged per procedure. Delta has separate rate schedules for general dentistry and specialists in endodontics, periodontics, oral surgery, and orthodontics.

The dental health maintenance option (DHMO) reimburses providers on a capitated basis, with each contract between the company and provider being negotiated separately. In addition, capitation rates may be negotiated specifically by covered groups. Development and maintenance of the DHMO provider network is handled principally by American Dental Professional Services, under a series of agreements executed during 1996.

The contracts include hold-harmless provisions for the protection of policyholders. Under the provider contract, the dentist agrees that an eligible patient shall not be liable for any amount payable by Delta under the terms of the applicable dental care contract, whether or not payment has been made by Delta. Provider contracts may be terminated by either party giving not less than 30 days' written notice to the other party prior to the desired effective date of termination.

The company offers a limited range of dental care coverage that may be changed by riders to include deductibles and copayments. The company markets its plans throughout the entire state of Wisconsin. The available Delta programs are as follow:

- DeltaPremier: A traditional indemnity program that includes Delta's cost-saving managed care features. For groups with over 100 employees.
- DeltaPreferred Option: A preferred provider organization (PPO). For groups with over 100 employees.
- DeltaCare: A capitated dental health maintenance organization (DHMO). For groups with more than five enrolled employees.
- For groups with more than 50 lives in more than one state, the plans above are available on a national basis as a DeltaUSA product, in conjunction with the national Delta Plans system.
- Total Access Voluntary is a tri-level, point-of-service voluntary plan (no employer contribution required) for groups of 10 or more enrolled employees.

- TriSelect Voluntary Plus is a triple-choice voluntary plan offering fee-for-service, preferred provider organization (PPO) and dental health maintenance organization (DHMO) options for groups of 10 or more enrolled employees.
- For groups with less than 100 employees, there are pooled community-rated dental plans sold as MaxiMizer (traditional fee-for-service) and Delta PreferredAccess (PPO).

The following basic dental care coverages are provided:

- Diagnostic and preventive services [dental exams, bitewing x-rays, teeth cleaning, topical fluoride treatment for dependents to age 19].
- Basic restorative services [emergency treatment to relieve pain; extractions and other oral surgery; fillings; endodontics (root canal treatment); periodontics].
- Major restorative services [inlays and crowns; bridges; dentures].
- Orthodontic treatment for dependents to age 19.

Deductibles can range from \$0 to \$100 per person per calendar year. Dependent coverage is generally provided to age 19 (age 25 for full-time students). Benefit maximums vary by plan type, ranging from \$300 to \$2000 per person per calendar year. Under the PPO plans, use of the PPO network is encouraged by plan design or out-of-pocket costs. Coinsurance percentages may apply. Under the DHMO plan, a member must receive all dental care from the dental office s/he has selected for primary care or from a network specialist recommended by the primary care dentist in order to receive benefits.

The company currently markets to groups only. However, while plans must be employer-sponsored, some plans designed by Delta do not require an employer contribution (premiums are paid by the plan participants). The company uses outside agencies, as well as in-house sales staff. Commissions on new and renewal business are paid according to the following schedule:

Standard Commission

Commissions listed here are in effect for premium paid to Delta Dental by fully insured, nonpooled groups

- 5% of the first \$75,000 of annual premium
- 2% of the amount between \$75,000 and \$250,000 of annual premium
- 1% of the amount over \$250,000 of annual premium

Pooled Product Commission

Commissions listed here are in effect for premium paid to Delta Dental by groups purchasing Delta's MaxiMizer or Preferred Access plans

- 8% of the first \$20,000 of annual premium
- 2% of the amount between \$75,000 and \$250,000 of annual premium
- 1% of the amount over \$250,000 of annual premium

Voluntary Product Commission

Commissions listed here are in effect for premium paid to Delta Dental by groups purchasing Delta's TriSelect Voluntary Plus or Total Access Voluntary plans

- 10% of annual premium, regardless of the annual premium amount

DeltaCare Commission

Commissions for Delta's DHMO product, DeltaCare, vary on the basis of several factors, including whether or not the plan is stand-alone or offered as a dual choice option; and whether the plan is voluntary or contributory..

Self-Insured (ASO) Commission

Commissions for sales involving self-insured (administrative services only) groups are calculated by table rates or by negotiation.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted annually for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members; with the company president serving for the length of his term and the remaining 9 directors being elected to staggered three-year terms.

Officers for the board are elected at the board's annual meeting. All board members currently receive \$400 per meeting compensation. Members not employed by Delta receive monthly compensation in a range from \$1500 to \$2500 for serving on the board. The company pays expenses for meals and lodging. Board members living outside a 10-mile radius of Stevens Point are reimbursed for mileage at the current IRS rates.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard Sprain Madison, WI	Accountant	December 2002
Bryard Giroux Wausau, WI	Retired Dentist	December 2002
William Leakey Washburn, WI	Retired Dentist	December 2002
Al Reimer Greenfield, WI	Retired Union Representative	December 2003
William Baumgardner Onalaska, WI	Practicing Dentist	December 2003
William Powell Menomonie, WI	Practicing Dentist	December 2003
Maris Rushevics Stevens Point, WI	Attorney	December 2003
Frank Shuler Palmyra, WI	Retired Dentist	December 2004
William Matthews Bayfield, WI	Retired Financial Consultant	December 2004

Officers of the company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2001 Compensation
Dennis Brown	President & Chief Executive Officer	\$323,445
Dennis Peterson	Executive Vice President	233,500
Gary Rogers	Vice President of Marketing	189,885
Patricia Glennon	Vice President of Finance	176,783
Karen Johnson	Vice President of Operations	169,408
Karen Thompson	Vice President of Underwriting	144,183
Lindie Landin	Vice President of Systems Development	190,177

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Frank Shuler, Chair
Dennis Brown
William Baumgardner
Al Reimer
Richard Sprain

Building Committee

Dennis Brown, Chair
William Powell
Maris Rushevics

Nominating Committee

William Leakey*
Maris Rushevics

Ad Hoc Committee #2**

Richard Sprain, Chair
William Baumgardner
William Powell

Finance Committee

William Matthews, Chair
Bryard Giroulx
Al Reimer

Long Range Planning Committee

William Matthews, Chair
William Baumgardner
Frank Shuler

Ad Hoc Committee #1*

Al Reimer, Chair
Frank Shuler
William Leakey
Maris Rushevics

*In order to be on the nominating committee, members must not be up for re-election. Dr. Leakey's term expires at the end of 2002, however since he is not seeking re-election he is eligible to serve on this committee.

* Ad Hoc Committee #1 was formed to finalize a previous draft of guidelines for reappointment of current directors, and selection of new directors. They are also to recommend the size, makeup, and possible term limits of the Executive Committee when the Board reduces to nine members, and review and recommend any changes concerning the scope of both permanent and ad hoc committees.

** Ad Hoc Committee #2 was formed to make a recommendation to the Board about the company's need for an internal auditor. If no need is found, the Committee will explain how this is being done in-house now, or how it could be done by an outside entity. This recommendation is to be made by December 2002.

IV. AFFILIATED COMPANIES

Delta Dental Plan of Wisconsin is a member of a holding company system. DDPW has one subsidiary, Advantech Dental Administration, Inc., that is 100% wholly owned by DDPW. Advantech was established in 1998 to provide various dental related services. DDPW has a services agreement with Advantech in which they provide administrative and managerial services necessary for Advantech to conduct its normal business operations as a third-party administrator. The services include providing general management, information services, and personnel to perform third party processing services. Advantech has one significant contract in which they provide TPA services for EPIC Insurance.

DDPW is also a member of the Delta Dental Plans Association (DDPA). DDPA, headquartered in Oak Brook, Illinois, is an association of 37 independent service corporations from around the country. DDPA functions in coordinating activity among the Delta plans. Examples of DDPA activities include advertising programs, the DeltaUSA products, and setting of national standards for such issues as grievance procedures and contract language. DDPW's president, Dennis Brown, is a member of the DDPA board of directors. DDPW also serve on several DDPA national committees.

V. REINSURANCE AND CORPORATE INSURANCE

DDPW has reinsurance coverage under the contract outlined below:

Reinsurer: Wisconsin Physicians Service Insurance Corporation (WPS)

Type: Quota-Share Reinsurance

Effective date: January 1, 1996; policy is for an initial three-year term, automatically renewing for additional one-year terms thereafter

Coverage: Reinsurance contract pertains to policies included in the WPS/Delta joint venture arrangement; as outlined below:

Policy Coverage Reinsured	Reinsurer's quota-share	Company's quota-share	Co.'s ceding allowance
1) Group dental policies originally issued by WPS and then transferred to DDPW policy forms in accordance with the 12/31/95 Joint Venture agreement	100%	None	None
2) Group dental policies solicited by WPS and issued on DDPW policy forms with initial effective dates of 1/1/96 or later	50%	50%	None
3) Group dental policies solicited by DDPW and originally issued on DDPW policy forms who elect to enter the Joint Venture agreement	None	100%	None

Termination: Following completion of the initial three-year term, either party may terminate the agreement by giving the other party written notice of such intention to terminate at least 180 days in advance of the effective date of termination.

The WPS reinsurance policy has an article covering insolvency provisions.

The company is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$ 3,000,000
Fiduciary liability (fidelity bond)	1,000,000

The above coverages are offered through insurers licensed in Wisconsin.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the commissioner of insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Delta Dental Plans of Wisconsin, Inc.
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$26,496,996	\$ 0	\$26,496,996
Stocks:			
Common stocks	12,790,078	0	12,790,078
Real Estate:			
Properties occupied by the company	3,297,796	0	3,297,796
Cash and short-term investments	728,476	0	728,476
Accident and health premiums due and unpaid	907,625	0	907,625
Investment income due and accrued	516,520	0	516,520
Amounts due from parent, subsidiaries and affiliates	147,943	0	147,943
Furniture and equipment	353,879	353,879	0
Electronic data processing equipment and software	721,592	133,239	588,353
Receivable prefunding	16,300	0	16,300
Miscellaneous receivable	287,119	13,294	273,825
Cash surrender value of life insurance	111,865	0	111,865
Company owned autos	184,985	184,985	0
Total assets	<u>\$46,561,174</u>	<u>\$685,397</u>	<u>\$45,875,777</u>

Delta Dental Plans of Wisconsin, Inc.
Liabilities, Capital and Surplus
As of December 31, 2001

Claims unpaid	\$ 3,080,394
Unpaid claims adjustment expenses	332,792
Premiums received in advance	742,320
General expenses due or accrued	1,588,708
Amounts withheld or retained for the account of others	14,635
Advanced received-cost plus groups	1,069,516
Reserve for outstanding checks	44,374
Deferred compensation	36,300
Payable-Wisconsin income tax	162,356
Payable-WPS	31,076
Total liabilities	7,102,471
Unassigned funds (surplus)	38,773,306
Total liabilities and surplus	<u>\$45,875,777</u>

**Delta Dental Plans of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2001**

Net premium income		\$59,688,953
Medical and Hospital:		
Other professional services	\$46,832,055	
Other Underwriting Deductions		
Claims adjustment expenses	149,924	
General administrative expenses	<u>3,515,903</u>	
Total underwriting deductions		<u>50,497,882</u>
Net underwriting gain or (loss)		9,191,071
Net investment income earned	1,436,837	
Net realized capital gains or (losses)	<u>(185,538)</u>	
Net investment gains or (losses)		1,251,299
Sundry		<u>22,293</u>
Net income (loss)		<u>\$10,464,663</u>

**Delta Dental Plans of Wisconsin, Inc.
Capital and Surplus Account
As of December 31, 2001**

Capital and surplus prior reporting year		\$28,356,172
Net income or (loss)	\$10,464,663	
Net unrealized capital gains and losses	86,971	
Change in nonadmitted assets	<u>(134,500)</u>	
Net change in capital and surplus		<u>10,417,134</u>
Capital and surplus end of reporting year		<u>\$38,773,306</u>

Delta Dental Plans of Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2001

Cash from Operations

Premiums and revenues collected net of reinsurance		\$59,701,878
Claims and claims adjustment expenses		46,952,484
General administrative expenses paid		3,455,508
Other underwriting income (expenses)		<u>(17,057)</u>
Cash from underwriting		9,276,829
Net investment income		1,461,201
Other income (expenses)		<u>22,293</u>
Net cash from operations		10,760,323

Cash from Investments

Proceeds from investments sold, matured or repaid:			
Bonds	\$6,940,209		
Stocks	<u>5,450,426</u>		
Total investment proceeds		\$12,390,635	
Cost of investments acquired (long-term only):			
Bonds	16,522,790		
Stocks	8,869,770		
Mortgage loans	0		
Real estate	<u>868,392</u>		
Total investments acquired		<u>26,260,952</u>	
Net cash from investments			(13,870,317)

Cash from Financing and Miscellaneous Sources

Cash provided:			
Net transfers from affiliates	63,877		
Other cash provided	<u>116,360</u>		
Total		180,237	
Cash applied:			
Other applications		<u>496,468</u>	
Net cash from financing and miscellaneous sources			<u>(316,231)</u>
Net change in cash and short-term investments			(3,426,225)
Cash and short-term investments:			
Beginning of year			<u>4,154,701</u>
End of year			<u>\$ 728,477</u>

Growth of the company

The following schedules reflect the growth of the company during the examination

period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2001	\$45,875,777	\$7,102,471	\$38,773,306	\$59,688,953	\$46,832,055	\$10,464,663
2000	35,145,744	6,789,573	28,356,172	50,199,608	39,403,448	7,426,141
1999	27,133,466	6,234,572	20,898,894	41,942,781	34,071,174	6,368,245
1998	21,402,502	6,309,361	15,093,141	36,508,965	30,531,542	3,774,212
1997	15,808,583	4,707,748	11,100,839	28,844,955	24,009,620	2,801,607
1996	11,278,573	3,430,994	7,834,587	23,112,867	19,031,742	1,373,798

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2001	17.5%	78.5%	5.9%	15.9%
2000	14.8%	78.5	9.3	N/A
1999	15.2%	81.2	7.0	N/A
1998	10.3%	83.6	8.7	N/A
1997	9.7%	83.2	11.3	N/A
1996	5.9%	82.3	14.7	N/A

Enrollment

Year	Enrollment
2001	114,828
2000	99,069

Per Member Per Month Information

	2001	2000	Percentage Change
Premium	\$44.69	\$42.22	5.9%
Expenses:			
Other professional services	35.05	33.14	5.8
Claims adjustment expenses	.11	.26	(57.7)
General administrative expenses	2.63	3.93	(33.1)
Total underwriting deductions	<u>\$37.79</u>	<u>\$37.33</u>	1.2

Reconciliation of Net Worth per Examination

The examination did not result in any adjustments, however, four reclasses were made. The following schedule shows these reclassifications:

	Debit	Credit
Aggregate write-ins for other liabilities	\$234,466	
Liability for amounts held under uninsured A&H plans		\$234,466
Aggregate write-ins for other liabilities	835,051	
Liability for amounts held under uninsured A&H plans		835,051
A&H premiums due and unpaid		440,928
Amounts receivable relating to uninsured A&H plans	440,928	
A&H premiums due and unpaid		88,881
Aggregate write-ins for other than invested assets	<u>88,881</u>	<u>88,881</u>
Total reclassifications	<u>\$1,599,326</u>	<u>\$1,599,326</u>

The above reclasses were made to properly record the company's premium receipts and future liability payments into the correct account classifications.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Conflict of Interest—It is recommended that the company expand its conflict of interest procedures to include annual completion of a statement by officers and key employees, in addition to those completed by directors.

Action—Compliance. Conflict of Interest statements are being completed annually by all officers and directors.

2. Fixed Assets—It is recommended that the company tag its fixed assets with specific identification numbers, corresponding with the fixed assets register, and incorporate a periodic physical inventory of assets as part of the company's internal control procedures.

Action—Compliance. The company has tagged its fixed assets with specific identification numbers, which correspond to the fixed asset register. Newly purchased assets are being tagged when added to the fixed assets register. The company has incorporated into their internal control procedures an annual inventory of assets.

Summary of Current Examination Results

Financial Statements

During the course of the examination, several errors were noted in the annual statement. Following is a list of errors by schedule.

- Schedule D - Part 1:
 - The coupon and effective rate are being reported as the same rate.
 - Several of the bonds show they are only paid once per year. After looking up several of the bonds on the Internet, these bonds are paid semi-annually. The company should be including both months that bonds are paid.
 - SSAP No. 26 states that amortization of bond premium or discount shall be calculated using the scientific (constant yield) method. The bonds are being amortized using the straight-line method.
- Schedule Y, Part 2:
 - The purpose of this schedule is to disclose transactions between affiliates. There was no summary of transactions with Advantech listed.

It is recommended that the company properly fill out the annual statement per the NAIC Annual Statement Instructions.

Information Systems

The company has indicated that security logs for its firewall and security violations are reviewed periodically, but there is no formal process documenting the review. Having a formal process provides an audit trail evidencing that the review is being performed, when logs are being reviewed, and whether any issues are noted. It is recommended that the company develop a formal process for the periodic review of its security logs.

VIII. CONCLUSION

Delta Dental Plan of Wisconsin, Inc. is a nonstock, nonprofit service insurance corporation, established to provide dental care plans. Approximately 76% of Wisconsin dentists have a participating dentist contract with DDPW. DDPW has a management agreement with American Dental Professional Services, LLC, who has developed and maintained the provider network for DDPW's dental health maintenance option.

Delta Dental's 2001 annual statement reported assets of \$45,875,777, liabilities of \$7,102,471 and surplus of \$38,773,306. Operations for 2001 produced a net income of \$10,464,663. Premium has increased 107% in the past five years and underwriting gain has increased for each year under examination. Overall, the company had favorable financial results for the examination period.

The company has complied with all prior examination recommendations. This examination resulted in four reclassifications and two recommendations were made regarding the company's financial reporting and information systems.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Financial Statements—It is recommended that the company properly fill out the annual statement per the NAIC Annual Statement Instructions.
2. Page 19 - Information Systems—It is recommended that the company develop a formal process for the periodic review of its security logs.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Lori Cretney	Insurance Financial Examiner
Sheur Yang	Insurance Financial Examiner
Randy Milquet	Examiner - Advanced

Respectfully submitted,

Sonja M. Dedrick
Examiner-in-Charge